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FACILITATING INVESTMENT IN CLEAN ENERGY ELECTRICITY INFRASTRUCTURE

Reliable and cost-competitive electricity is a fundamental requirement for sustainable development, growth, employment, and eventually social and political stability. To help Africa surmount its large deficits in the supply and transmission of electricity, USAID has created the Africa Infrastructure Program (AIP). Launched in September 2008, this program helps create an enabling environment for commercially viable and environmentally sound electricity projects. AIP provides assistance to projects to overcome barriers that prevent them from reaching financial closure and being built. AIP accomplishes this by funding the services of power sector experts in the various disciplines required to create this favorable environment and structure to make bankable projects viable.

THE CHALLENGE

Both supply and access to electricity in Sub-Saharan Africa are limited—fewer than one in four people have access to reliable and affordable electricity sources. Investment in new facilities is also inadequate relative to the continent's size; consequently, shortages are commonplace. Privately supported electricity projects can help alleviate these shortages, but the number of successful private projects remains small. Why? The commercial, political, legal, and regulatory risks in many countries are great; commercial and financial structuring of privately sponsored electricity projects is complex; and host governments often lack essential project structuring and negotiating skills. These factors make it difficult to bring private projects to financial closure in Africa.

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AFRICA INFRASTRUCTURE PROGRAM

Many viable clean energy projects in Africa encounter financing and enabling environment barriers. These barriers prevent projects from becoming a reality. USAID's Africa Infrastructure Program offers support to African governments to help advance viable projects. The program assists African governments and their project development partners in overcoming barriers and reaching financial closure.

African officials must make decisions on costly and technically complex projects that have significant economic, environmental, and social consequences for their countries. These decisions are often made without the support of skilled, expert advisors who understand how similar projects are structured in the international marketplace. Lack of experience with the terms and social and political ramifications of these complex projects causes decisions to be delayed—delays that are costly to both governments and developers. Lack of reliable supplies of electricity represents a high cost to governments and a significant drag on economic growth in the region.

THE PROGRAM

AIP recognizes how important structuring electricity projects is to the long-term sustainability of African economies. In a properly structured project, all the key project risks are addressed and assigned to the parties best capable of assuming them. Taking a full accounting of the financial, social, political, and clean energy sensitivities of projects increases their long-term viability and provides incentives for both governments and developers to remain committed to projects throughout their lifespan.

Often, this includes structuring deals as public-private partnerships to attract public support and facilitate donor and commercial financing.

AIP seeks to leverage more than \$1 billion of investments in new electricity sector investments by 2011, resulting in one gigawatt of additional capacity. This leverage is achieved by offering late-stage transactional services to African governments or project developers. AIP is equipped to undertake an honest broker role in almost any advisory capacity in a transaction to resolve issues that prevent a project from reaching financial closure.

THE SERVICES

AIP supports projects provided they meet specific criteria (see box below). AIP seeks to collaborate with African governments, other donors, multilateral development institutions, commercial banks, financial advisors, and project developers in the support of specific projects. Its intention is to complement existing efforts, not to replace them.

Typical AIP support may include:

CRITERIA FOR AFRICA INFRASTRUCTURE PROGRAM PROJECT SELECTION

AIP seeks to support programs with the following characteristics:

- *Identified capacity building requirements that will lead to private sector investment and support clean energy development*
- *Later or post-feasibility-study stages of the project development cycle*
- *Commercial and financial viability, with a strong private sector component*
- *Ability to achieve financial closure and leverage significant new investments within one to two years*
- *A positive impact on economic growth and increase access to commercial electricity*
- *Ability to facilitate or replicate the development of other similar projects in Africa*
- *Compliance with the environmental standards of USAID and the World Bank.*

- *Capacity building* in the areas of policy/investment framework, regulatory reform, tariff formulation, sample contract terms, and intermittence/integration analysis.
- *Project support and transaction advisory assistance* in technical, financial, commercial, regulatory, legal, and environmental areas related to project structuring, risk mitigation, financial engineering, contract negotiation support, stakeholder mobilization, and funds mobilization.

Each project is unique, and the AIP support is customized. The AIP team meets with stakeholders to determine where the assistance can best be applied to address critical issues impeding a project's progress toward financial closure.

CURRENT AIP PROJECTS

Currently, AIP is working in Nigeria, Mozambique, Namibia, South Africa, Kenya, Cameroon, and Rwanda. A sample of ongoing AIP initiatives is described below.

- **Nigeria:** *Energy and Climate Change and Gas-Flaring Reduction* – Assisting the government and independent power producers in developing for-profit, clean energy interventions that will help to capture currently flared gas and turn it into a usable, clean power source.
- **Kenya:** *Assistance to KETRACO in Clean Energy Development* – Providing capacity building and assistance to the national transmission company in the development of a backbone transmission line to link a major wind farm and geothermal projects to the users.
- **Rwanda:** *Assistance to RECO in REFITs* – Establishing feed-in tariffs for micro-hydro, solar, geothermal, and other clean and renewable projects, rationalizing the structure on a cost-recovery-plus-return basis, and enhancing independent power producer (IPP) development with immediate application on a set of micro-hydro projects.
- **Mozambique:** *Support to Ministry of Energy in Wind Energy* – Assisting the Ministry of Energy in the establishment of a clean energy regulatory framework for the development of wind energy, as well as in its first wind project.
- **South Africa:** *Support to Department of Energy* – Assisting in capacity building and providing transaction advice to help the National Electricity Regulator of South Africa implement policies for promoting IPP development. ❖